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Weekly Intelligence Summary No. 27

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

British airline corporations are meeting increased foreign competition due to their present inefficient fleet of aircraft. The UK, therefore, may be tempted, in current negotiations with Egypt and India, to compromise the liberal, unrestrictive aviation policy followed to date in favor of less competitive operating conditions. This would establish a precedent and strengthen the Arab League States in their determination to restrict foreign air operations through their territory. (Item No. 1)

✓ A Brazilian-Swiss bilateral civil aviation agreement was signed at Bern on 10 August. Under the agreement, the two nations exchange all commercial landing and transit rights for their respective territories in accordance with the standard provisions advocated by the US and UK since 1946. (Item No. 2)

Israel has recently lost the important air services of all European airlines routed through Egypt including the Dutch KLM and British Cyprus Airways. These airlines have been forced, by an Egyptian proclamation, to choose between a stop at Haifa and stops at the traffic generating cities of Cairo and Alexandria. Israel is now entirely dependent for air services upon Czechoslovak Airlines and the Italian Airline SISA. That Israel at this critical juncture is entirely dependent for scheduled air services on Communist and suspect airlines is of considerable political significance. (Item No. 3)

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French merchant marine plans provide for restoration of the fleet to 1939 levels by 1951. The fleet will, however, be composed of larger, faster vessels than before, and tankers will constitute a greater proportion of the fleet than in 1939. Plans beyond 1951 may be affected by possible shortages of steel for domestic construction and foreign exchange for vessel purchases abroad. (Item No. 4)

Strong measures against reportedly communist or "leftist" inspired agitation have been taken by the governments of Bolivia and Peru. (Item No. 5) ✓

The UK has reacted sharply to the impending contracts for ship construction in Japanese shipyards. The British feel that such activity is a threat to their own shipyards. (Item No. 6)

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SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

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1. Continued British adherence to the joint US-UK aviation policy formulated in the Bermuda Agreement of 1946 will be tested in the UK's current commercial air negotiations with India and Egypt. This policy has been strictly observed by both countries in air agreements with other States and thus has brought about wide acceptance of liberal principles concerning transit and traffic rights. While it is believed that over-all political considerations will influence the UK in favor of continued adherence to the policies upheld by the US, the British airline corporations are finding it increasingly difficult to meet growing foreign competition with their present inefficient fleet of aircraft, and the UK, therefore, may be tempted to compromise the liberal aviation policy followed to date in favor of less competitive operating conditions. Any evidence of a weakening of British policy would be watched closely by those countries due shortly to negotiate air agreements with India and Egypt, while a British settlement along restrictive lines would definitely establish a precedent and encourage the other Arab League States in their determination to restrict foreign air operations through their territory.
2. A Brazilian-Swiss bilateral civil aviation agreement was signed at Bern on 10 August. Under the agreement, the two nations exchange all commercial landing and transit rights for their respective territories in accordance with the standard provisions advocated by the US and UK since 1946. The conclusion of this type of agreement partially dispels US concern over the possible defection of Brazil from US civil aviation leadership. (This possibility arose from the conclusion of a restrictive Brazilian-Argentine agreement in June. See Transportation Group Weekly Summary No. 16, 15 June.) In view of Brazil's anticipated conclusion in the near future of bilateral agreements with Italy and Spain, the Brazilian attitude will continue to be of importance to US aviation interests.
3. The State of Israel is no longer served by any airline making stops in Egypt. Several carriers, including the Dutch KLM and British Cyprus Airways, were forced by an Egyptian proclamation to choose between a stop at Haifa and stops at the traffic generating cities of Cairo and Alexandria. As a result, the only scheduled airlines still flying to Israel are Czechoslovak Airlines (CSA) and the Italian Airline SISA. It is a matter

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6. Growing railway strife in Bolivia and Peru reflects the increasing political instability in those countries. Bolivia has revealed concern over these trends by placing the Bolivian portion of the Arica-La Paz railway under military direction. Similarly, Peru has decreed governmental management of the Central Railroad until services can be re-established on a normal basis.

The railway systems of these countries provide a natural and remunerative foothold for "leftist" and Communist-controlled groups due to the political instability of the large number of laborers living under sub-standard conditions and the immediate economic consequences of a disruption in normal rail services. Evidence actually indicates that such groups, in both countries, are connected with the current widespread agitation.

6. The UK has reacted sharply to the impending contracts under which Japanese shipyards will be allowed to construct merchant ships for foreign account. While few contracts have actually been signed, it is expected that construction of at least fifteen cargo vessels ranging from 5,000 to 18,000 tons deadweight will commence shortly. The Supreme Command Allies Pacific (SCAP) desires to stimulate the once flourishing Japanese shipyards and thus promote the controlled recovery of Japan. SCAP further believes that the migration of current shipyard laborers to other industries must be stopped by putting them to work in the industry which they can make the maximum contribution to recovery.

While the UK concedes the desirability of allowing Japan to build sufficient tonnage for domestic needs, it contends that to allow more construction will afford Japan an opportunity to regain its prewar position as a major competitor of the UK in the Pacific maritime trade. A leading British shipbuilder recently expressed the views of the British industry by asserting that it would be a "sorry day" for the British shipbuilding industry when Japan resumes merchant ship construction.

Any resurgence of Japanese shipping activity would also certainly encounter strong Chinese opposition, both on strategic and economic grounds. Chinese merchant marine operators have their sights set on filling part of the vacuum created by the disappearance of Japanese shipping in the Pacific.

The opposition of the UK to Japanese shipbuilding is not shared by those Western European nations that are struggling to regain their prewar merchant fleets. France, Norway, Denmark, and Sweden, as well as US

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operators, are negotiating for construction in Japanese yards. The Western European reasoning appears to be that the economic advantages to them of obtaining tonnage within the near future outweigh the theoretical danger in the long-range economic or strategic build-up of Japan.

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